



August 2025

Monthly Market Focus

A monthly snapshot of how we see the property markets across the country together with relevant research and economic news. We also highlight recent transactions, product innovation and industry insights.

Thinktank.

Economic Outlook

The Reserve Bank of Australia (RBA) met on Tuesday 12 August and, as expected, cut the Official Cash Rate by 0.25% to 3.6%. The June quarter trimmed mean CPI was in line with forecasts, recording an annualised rate of 2.7%. This figure sits comfortably within the RBA's target inflation band of 2% to 3%, reinforcing the view that inflationary pressures have moderated sufficiently to support the continuation of the current interest rate-cutting cycle.

Among economists and market commentators, the key discussion now centres on whether the RBA will implement two or three additional interest rate cuts throughout 2025.

In the U.S., the Federal Reserve held interest rates steady at its July meeting, as did the Bank of Canada, maintaining its rate at 2.75%.

Bond markets have seen modest movements: U.S. 10-year Treasury yields have risen slightly to 4.23%, while 2-year yields have dipped to 3.71%. In Australia, 10-year bond yields are up to 4.25%, and 3-year yields have increased to 3.40%.

Meanwhile, The AUD continues to recover from having fallen from near 0.69 early last year and has now climbed from just below 0.60 to above 0.65 and closing most recently at 0.6504

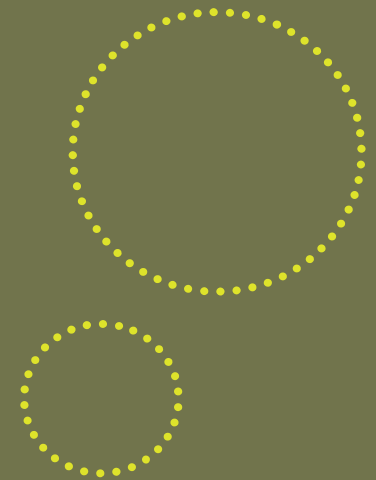
The Westpac-MI Consumer Sentiment Index improved again in July, rising from 92.6 to 93.1.

The survey reflected expectations of a cut in the Cash Rate in the near future.

The Westpac Melbourne Institute Leading Index issued in mid July fell to 0.3 in June from 0.11 in May reflecting concern over domestic economic factors.

The Australian Industry Group (AiG) Industry Index for July recorded an increase of 5.8 points but remained in negative territory at -3.2 - its best level in three years.

The PMI (manufacturing) increased to -23.9 and the PCI (construction) increased by 13.6 points to -1.3. All three indices were up but all failed to move into positive territory.



Cotality Data

Cotality (formerly known as CoreLogic) dwelling prices for July recorded another positive National result for the month up 0.6% and up by 1.8% for the quarter.

Sydney and Melbourne both recorded monthly gains, with Sydney up 0.6% and Melbourne rising 0.5%. Over the quarter, values increased by 1.8% in Sydney and 1.2% in Melbourne. Despite this, Melbourne remains fifth among the major capital cities in terms of median home value, showing a modest annual increase of 0.5%, while the other four capitals posted further gains this month.

In the housing segment, Sydney house prices rose 0.8% in July, while Melbourne houses were up 0.4%. Unit prices also increased, up 0.2% in Sydney and 0.4% in Melbourne. Adelaide, Perth, and Brisbane continued to perform strongly, with all three cities seeing growth in both houses and units across the month, quarter, and year. Nationally, dwelling values rose by 3.7% over the past year.

	Change in dwelling values				Median value
	Month	Quarter	Annual	Total return	
Sydney	0.6%	1.8%	1.6%	4.6%	\$1,228,435
Melbourne	0.4%	1.2%	0.5%	4.3%	\$803,424
Brisbane	0.7%	2.3%	7.3%	11.1%	\$934,623
Adelaide	0.7%	1.5%	7.0%	10.8%	\$843,339
Perth	0.9%	2.6%	6.5%	11.0%	\$831,921
Hobart	0.1%	0.1%	1.9%	6.3%	\$673,383
Darwin	2.2%	5.6%	8.5%	15.8%	\$549,371
Canberra	0.5%	1.3%	0.5%	4.5%	\$861,281
Combined capitals	0.6%	1.8%	3.0%	6.5%	\$926,854
Combined regional	0.6%	1.7%	5.9%	10.5%	\$689,369
National	0.6%	1.8%	3.7%	7.4%	\$844,197



Ratings and Trends

We continue to reflect this month's ongoing improvement in most Residential markets. We maintain the view that interest rates will fall again later in 2025, having a further positive effect on real estate values.

Herron Todd White (HTW) released its July Month in Review, including insights into the industrial sector, which is experiencing shortages across all five major capital cities. Perth was the only market identified as being at its peak, with the others noted as starting to decline.

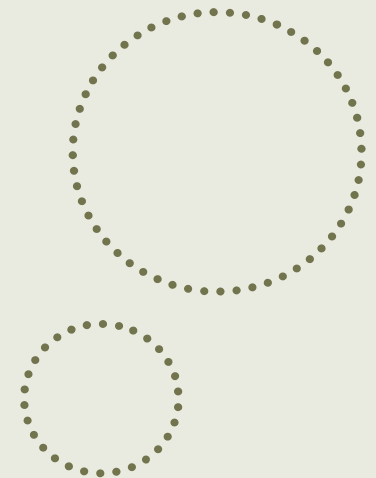
In the residential sector, despite widespread supply shortages, HTW rated Sydney and Melbourne as either Starting to Decline or at the Bottom of the Market for both houses and units. In contrast, the smaller capitals showed stronger performance: Brisbane remains the strongest, while Adelaide and Perth are both approaching their peaks.

These assessments are reflected in our own Ratings and Trends, which remain largely unchanged but continue to show a positive bias due to the expected easing of interest rates. The same applies to the office sector, despite persistent flat vacancy rates as reported in the PCA-OMR.

Overall Ratings are shown below. 6 ratings are Good, 16 are Fair, 3 remain Strong of which 2 are in Perth and 1 in Brisbane. None are Weak reflecting the stable investment environment. Trends show 11 Improving and none Deteriorating.

	Sydney	Melbourne	Adelaide	Brisbane	Perth
Residential Homes	Fair ▲	Fair ▲	Good ▲	Good ▲	Strong ▲
Residential Units	Fair ►	Fair ▲	Good ▲	Strong ▲	Good ▲
Office	Fair ►	Fair ►	Fair ►	Fair ►	Fair ►
Retail	Fair ►	Fair ►	Fair ►	Fair ▲	Fair ►
Industrial	Fair ►	Fair ►	Good ►	Good ►	Strong ▲

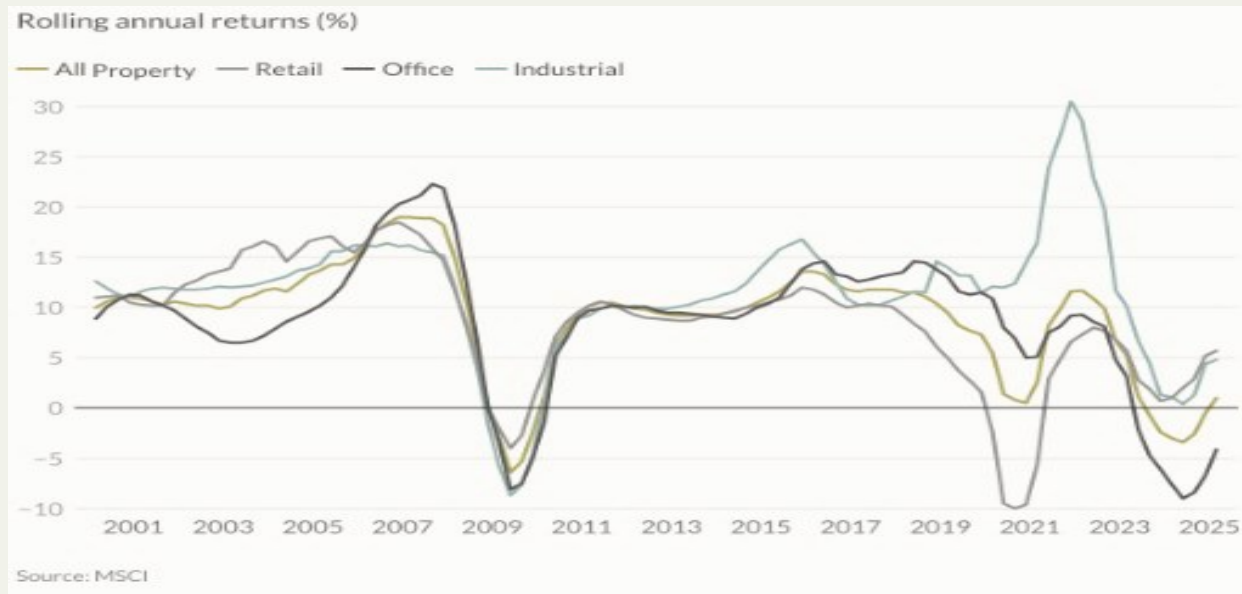
► Stable ▲ Improving
▼ Deteriorating ● Steady



MSCI Commercial Property Report

Shown below are the MSCI Rolling Annual Returns for the three Australian Commercial Property sectors. The recent improvement is clear and there is a strong expectation of further improvement as interest rates continue to fall over coming months and into 2026.

The HTW Month in Review Report we mentioned earlier still has Office markets in decline or near the bottom but expects that to change very shortly and that is the general view of most analysts with Office to join Retail and Industrial in the return to increased positive returns.



Further comments were provided by Ray White Head of Research Vanessa Rader on the individual commercial sectors.

MSCI Commercial Property Report contd.

Current capitalisation rates across the sector have expanded to levels not seen in recent years, with office yields estimated at 7.00 to 8.00%, retail at 6.00 to 6.50%, and industrial at 5.50 to 6.00%. The expected continued reduction in interest rates has the potential to significantly reduce capitalisation rates and in turn raise capital values of the sectors impacted.

The 'All property' market 1.01% total return represents a crucial turning point. After an extended period of negative returns, this modest positive performance suggests we may be approaching the bottom of the cycle. Income returns remain robust across all sectors at over 5%, providing important cashflow support while capital values continue their adjustment.

Retail has emerged as the standout performer, delivering a robust 5.73% total return for the quarter. This performance is driven by strong income returns of 5.98% and minimal capital decline of just -0.24%. More impressively, sub-regional retail centres are leading the charge with an exceptional 8.34% total return, followed by regional centres at 6.74%. This retail revival reflects the sector's successful adaptation to changing consumer behaviours, limited new supply, and strong population growth driving improved occupancy rates.

Industrial property continues to demonstrate its defensive characteristics with a solid 4.83% total return. Importantly, industrial is the only sector showing positive capital growth at 0.40%, suggesting underlying asset value stability. The sector's impressive three-year annualised return of 5.27% reflects its sustained appeal to investors despite moderating from pandemic-era highs.

The office sector remains the clear underperformer, with both CBD and non-CBD assets recording negative 4.11% total returns. Despite maintaining reasonable income returns of 5.16% for CBD and 5.64% for non-CBD properties, severe capital value declines of -8.86% and -9.27% respectively highlight the structural challenges facing this asset class. The persistent negative three-year total return performance (-2.95% for CBD, -3.02% for non-CBD) underscores the prolonged nature of the office market adjustment. This reflects ongoing high vacancy rates, ranging as high as 18% in Melbourne CBD, and the continued impact of hybrid working arrangements on space requirements.

We will look closely at the PCA Office Market report next month which will provide detailed data on occupancy rates, rentals and incentives in all key locations across the country.

Property Council of Australia – Office Market Report (OMR)

The graph from the Office Market Report (OMR) shows that Australian office vacancy rates have risen from 14.7% to 15.2% over the past six months, marking a 30-year high.

This trend was highlighted in a recent Australian Financial Review article by Nick Lenaghan, which opened “The vacancy rate across Australia’s office markets has risen to 15.2% nationally, its highest in around three decades, as new supply hits the market faster than it can be taken up.”

The article notes that national CBD vacancy rose slightly to 14.3% in the six months to July, while suburban vacancy remained relatively stable at 17.3%. Tenants are increasingly targeting premium buildings in prime CBD locations, where demand continues to outpace that for lower-grade stock.

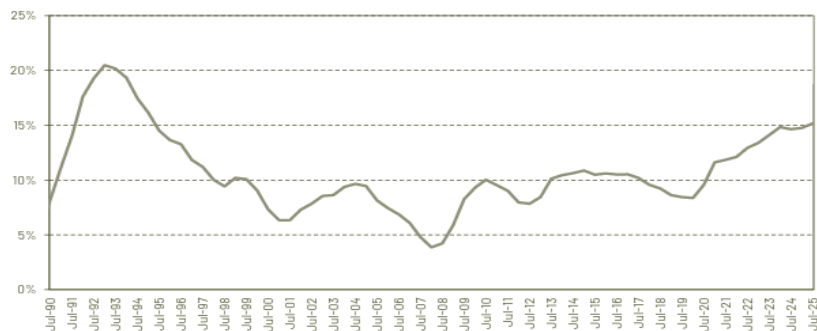
Melbourne currently has the highest CBD vacancy rate at 17.9%, down only marginally over the half-year. Perth follows closely at 17.0%, while Sydney’s CBD vacancy has risen to 13.7%.

The Property Council of Australia (PCA) figures confirm that demand is concentrated in premium and A-grade buildings, with B, C, and D-grade spaces experiencing significantly weaker demand.

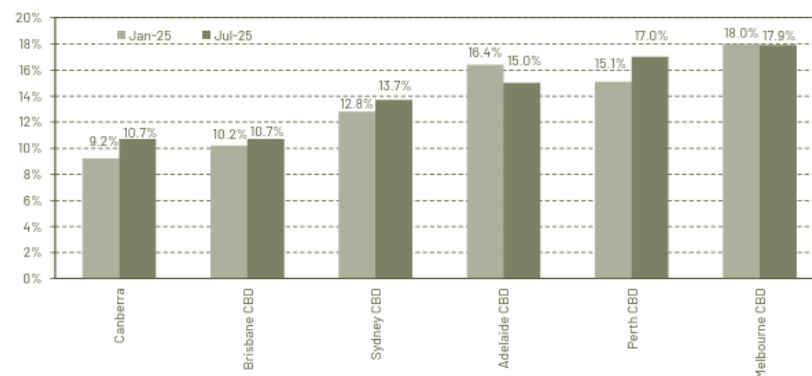
Further commentary from Colliers Research in their July Office Market Commentary echoed these findings, stating: “The Australian office market is entering a new cyclical phase driven by sustained demand and new supply. There is a shift towards A and B-grade assets as tenants seek high-quality spaces. The national vacancy rate is expected to recover over the next five years, indicating a positive trend.”

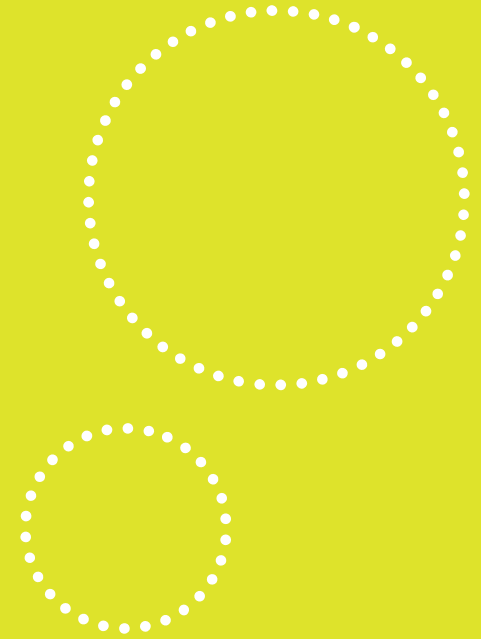
Individual market insights from Colliers also reflect a shortage of new premium office supply, which continues to attract strong interest from prospective tenants.

Australian Vacancy: 1990 – 2025



CBD Vacancy Change - Six Months to July 2025





Sources

Sources: ABS, ACCI, AiG, ABS, AFR, ANZ Research, ATO, CBA, CBRE, Colliers International, CoreLogic, Cushman & Wakefield, HTW, IMF, MSCI, JLL, Knight Frank, OECD, PCA, Preston Rowe Patterson, RBA, RLB, Savills Research, Westpac Economics, World Bank, RLB Crane Index

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